

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AF-10 AID-05 CIAE-00 COME-00 EB-07
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
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PASS TREASURY FOR SYVRUD

E.O. 11652: N/A
TAGS: ECON, PO
SUBJECT: ECONOMIC DEVELOPMENTS - DEVALUATION RUMORS DENIED

SUMMARY. RUMORS OF A FURTHER DEVALUATION OF THE ESCUDO ARE DENIED BY HIGH LEVEL PORTUGUESE FINANCIAL OFFICIALS, BUT WIDE-SPREAD SPECULATION AGAINST THE ESCUDO CONTINUES. RECENT OFFICIAL STATISTICS INDICATE THAT PORTUGAL'S TRADE DEFICIT IN EARLY 1977 WAS SUBSTANTIALLY LARGER THAN IN EARLY 1976 AND THAT CONSUMER FOOD PRICES ROSE IN MARCH BY 11 - 13.5 PERCENT.
END SUMMARY.

1. DEVALUATION RUMORS DENIED: HIGH LEVEL PORTUGUESE FINANCIAL OFFICIALS HAVE FORCEFULLY DENIED RECENT STRONG RUMORS OF AN IMMINENT FURTHER DEVALUATION OF THE ESCUDO. WHILE RENEWED SPECULATION WAS DRIVING THE BLACK MARKET RATE TO 42 ESCUDOS TO THE DOLLAR, FINANCE MINISTER MEDINA CARREIRA DECLARED "CATEGORICALLY" MAY 1 THAT THERE WOULD BE NO FURTHER DEVALUATION THIS YEAR. BANK OF PORTUGAL GOVERNOR SILVA LOPES REITERATED IN LUNCHEON SPEECH SAME DAY THAT NO DEVALUATION
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TION WAS IN THE OFFING, BUT REVEALED GOP WAS STUDYING NEW LEGISLATION TO REDUCE PUBLIC AND PRIVATE CONSUMPTION, ENCOURAGE INVESTMENT, AND RESTRAIN SALARY DEMANDS. LEFTIST PRESS IMMEDIATELY SEIZED ON STATEMENT TO REPORT NEW "AUSTERITY MEASURES" WERE IMMINENT.

2. NEW STATISTICS DISCOURAGING: THE RECENT RELEASE OF

PRELIMINARY OFFICIAL STATISTICS FOR 1977 HAS DONE NOTHING TO CALM DEVALUATION FEARS.

-- COMMERCIAL GAP WIDENS: AN APRIL SOCIO-ECONOMIC SURVEY BY THE SECRETARIAT OF STATE FOR PLANNING REPORTED THAT PORTUGAL'S TRADE DEFICIT DURING JAN-FEB. 1977 WAS 76 PERCENT GREATER IN NOMINAL ESCUDO TERMS THAN DURING THE SAME TWO MONTHS IN 1976 (11,462 MILLION ESCUDOS VS. 6,509 MILLION). THE VALUE OF IMPORTS HAD CLIMBED 40.2 PERCENT (20,692 MILLION VS. 14,764 MILLION); EXPORTS HAD GROWN BY ONLY 11 PERCENT (9,230 MILLION VS. 8,255 MILLION). THE PICTURE, CONSIDERED IN NOMINAL DOLLAR TERMS, WAS ACTUALLY BOTH BETTER AND WORSE THAN THE ESCUDO FIGURE INDICATES. THE JAN-FEB. 1977 TRADE SHORTFALL WAS 49 PERCENT WORSE (VS. 76 PERCENT) THAN 1976 (\$353 MILLION VS. \$236 MILLION). IMPORTS (CIF) WERE UP 18.6 PERCENT (636 MILLION VS. \$536.9 MILLION). EXPORTS (FEB), HOWEVER, DROPPED IN VALUE BY 5 PERCENT (\$284 MILLION VS. \$300.2 MILLION). THE 1977 FIGURES, IT SHOULD BE NOTED, INCLUDE EXCEPTIONALLY HIGH IMPORTS OF DURABLE CONSUMER GOODS, EQUIPMENT, AND RAW MATERIALS AS IMPORTERS ANTICIPATED ESCUDO DEVALUATION AND IMPOSITION OF IMPORT QUOTAS.

-- CONSUMER PRICES UP SHARPLY: OFFICIAL CONSUMER PRICE INDICES FOR MARCH CONVEYED EQUALLY SOBERING NEWS. A NEW INDEX BY THE SECRETARIAT OF STATE FOR PLANNING, WITH AVERAGE 1976 PRICES AS A BASE, SHOWED FOOD AND BEVERAGE PRICES IN MARCH 29.6 PERCENT ABOVE THE 1976 AVERAGE AND 13.5 PERCENT ABOVE FEBRUARY 1977. THE NATIONAL INSTITUTE OF STATISTICS' 1963-BASE CONSUMER PRICE INDEX FOR LISBON, WHICH IS NO LONGER PUBLISHED, EXPERIENCED A LIMITED OFFICIAL USE

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7.5 PERCENT RISE IN MARCH, REACHING A LEVEL 30.8 PERCENT ABOVE THAT OF MARCH 1976. THE INDEX FOR FOOD PRICES JUMPED DURING THE SAME PERIODS BY, RESPECTIVELY, 11.3 PERCENT AND 39.2 PERCENT.

3. SECTOR LIMITS APPROVED: THE ASSEMBLY OF THE REPUBLIC ON MAY 5 APPROVED, IN PRINCIPLE, LEGISLATION DEFINING THE LIMITS OF THE PUBLIC AND PRIVATE SECTORS. THE BILL RESERVES TO THE PUBLIC SECTOR SUCH FUNDAMENTAL ACTIVITIES AS FINANCE, UTILITIES, TRANSPORT AND COMMUNICATIONS, AND NUMEROUS BASIC INDUSTRIES, E.G., PETROLEIUM AND PETRO-CHEMICALS, FERTILIZERS STEEL, AND CEMENT. TEXT (SUMMARY BEING POUCHED) NONETHELESS CONTAINS NUMEROUS EXCEPTIONS AND QUALIFICATIONS TO GENERAL RULE. GIVEN COSPONSORSHIP OF SOCIALISTS AND SOCIAL DEMOCRATS, BILL EASILY PASSED ASSEMBLY VOTE OVER COMMUNIST OPPOSITION. CENTER DEMOCRATS ABSTAINED, BUT INDICATE THEY MIGHT SUBSEQUENTLY LEND THEIR SUPPORT. MEASURE NOW RETURNS TO COMMITTEE FOR REFINEMENT BEFORE FINAL VOTE BY ASSEMBLY.

4. MID-TERM PLAN READIED: THE GOP 1977-1980 ECONOMIC DEVELOPMENT PLAN REPORTEDLY IS IN FINAL STAGES OF REFINEMENT BEFORE SUBMISSION TO ASSEMBLY LATER THIS MONTH. IN PUBLIC STATEMENT MAY 3, PLANNING MINISTER SOUSA GOMES STATED PLAN ENVISIONED CREATION OF OVER 200,000 JOBS BY 1980.

5. EXCHANGE RATE: LISBON CHECK BY RATE CLOSED MAY 6 AT 38.570 EQUALS \$1.00 U.S.
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Message Attributes

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